

JX 6

Message

From: Michael Christopher [michael.christopher@armenergy.com]
on behalf of Michael Christopher <michael.christopher@armenergy.com> [michael.christopher@armenergy.com]
Sent: 7/26/2017 9:52:43 AM
To: Jeff Hostettler [jeff.hostettler@hpspartners.com]
Subject: RE: Lender Model

Oh, we will try to make it more than a 55mm revolver day one, don't sweat it. Going to use May EBITDA (which we "fluffed" by having ARM bear a bunch of expenses (for eventual repayment)) instead of June. Prob an extra 15-20MM. Don't worry, we don't want this going sideways either. Let me know if you need anything, I am on cell today.

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Wednesday, July 26, 2017 9:50 AM
To: Michael Christopher <michael.christopher@armenergy.com>
Subject: RE: Lender Model

Thanks for this and I hear you. I'm just a bit frazzled. I guess I just feel a lot more comfortable with a \$100mm revolver than a \$55mm revolver. I'm not nearly as close to the numbers as you guys

From: Michael Christopher [mailto:michael.christopher@armenergy.com]
Sent: Wednesday, July 26, 2017 9:38 AM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

I caught up a bit on the below. I actually have quite a bit of comfort on this in a downside case.

What Bo sent you was your/HPS revised case with lower volumes but the same capex. There is some mistaken logic there in having lower volumes but the same/higher capex; rather, if AM only runs 4 rigs and GST 1 and Chis 1, then our SRll capex estimate goes down....a LOT. Bounds ran some numbers last night, and if that occurs then:

- (1) you stop/slow spending on the cryo and push it out (those volumes don't require the cryo done by December) – you could theoretically STOP spending on cryo and push out that \$50mm of spend, more conservatively you slow it down and spend 25-30mm,
- (2) OEA well connects go down by a bit (not a big driver bc KFM is already overbuilt for OEA) – still a few \$MM less,
- (3) GST well connect \$ go down a ton (depending on the week, they have issued well connect notices that imply 2-3 rigs running here....if that goes down by 1-2 rigs then capex goes from low 20s to about 10mm,
- (4) Chisholm similar story but smaller in scale – 9mm of spend goes to 4-5mm,
- (5) compression is also variable w volumes in a low case – what was 10mm would be 6-7mm
- (6) I kept the MRO/CHK/Chap capex in this case to be conservative even though the downside case below has NO volumes coming from them
- (7) So: if I add up all the effects of the "HPS downside case" discussed below, the capex goes from ~100-105mm through YE to something like 60-65mm *assuming* you don't stop building the cryo (if we saw all of our producers dropping rigs by 33-50% we would make a more dramatic capex decision on cryo particularly with Tenawa in the works)

ALSO, and I am not sure Bo mentioned this last night, we still have \$38mm on the balance sheet today (I know, I know, we sandbagged, sorry!), which should be low 30s by signing on Aug 8. So we have >30mm before we even get to the ABN loan.

Bo will update the model for these revised Bounds' capex guidance and send it to you shortly.

Exhibit
CP 0373
Hostettler

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 11:46 PM
To: Michael Christopher <michael.christopher@armenergy.com>
Subject: Fwd: Lender Model

Could we catch up tomorrow morning. Am I missing something? Only \$55mm availability? That won't get us to closing (or certainly not with much cushion)? It also sounds like we may trip a covenant upon signing SRH? I really need you to step in and help land this plane...

From: Jeff Hostettler
Sent: Wednesday, July 26, 2017 12:44:25 AM
To: Bo Dunne
Subject: Re: Lender Model

We need actual estimate for capex and downside volumes to get comfortable with liquidity. This thing is not leaving much wiggle room...

From: Bo Dunne <bo.dunne@armenergy.com>
Sent: Wednesday, July 26, 2017 12:42:25 AM
To: Jeff Hostettler
Subject: RE: Lender Model

I meant net debt through November-2017*. Sorry

From: Bo Dunne
Sent: Tuesday, July 25, 2017 11:42 PM
To: 'Jeff Hostettler' <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

Net debt through 2017 via the downside case that I provided to you earlier this evening is \$48.9mm at 11/30/17. For a sanity check, the cumulative capex in the model is \$93.5mm through 11/30/17, so I'm not too concerned. The alternative is to rush and close and use the May 31, 2017 figure as most recent...We can cite that Waterfield (sp?), the plant accounting system is under maintenance and information has been slow to receive as a result...this is actually fairly true.

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 11:35 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: Re: Lender Model

I'm actually not sure this works? We won't report 9/30 numbers until mid-November. Which means we are stuck with \$55mm through closing, which would result in insufficient (or very, very tight) liquidity?

From: Jeff Hostettler
Sent: Wednesday, July 26, 2017 12:29:18 AM

To: Bo Dunne
Subject: Re: Lender Model

Ugh, OK. One-time opex? Can we use an adjusted number at all. Let's go through the delta in the morning.

Thanks,
Jeff

From: Bo Dunne <bo.dunne@armenergy.com>
Sent: Wednesday, July 26, 2017 12:26:27 AM
To: Jeff Hostettler
Subject: RE: Lender Model

The June EBITDA reflected in the projections is an estimate. June 2017 EBITDA was down vs budget primarily due to higher opex and was \$1.17mm (or ~\$14mm annualized). For comparison, May 2017 EBITDA was \$1.73mm. As such, initial availability will be ~\$63mm; however, that is at 4.5x leverage. We will stay below 4x leverage, which would result in ~\$55mm of availability initially, so that we may make distributions. \$55mm is enough to fund us through 9/30/17 (per the CapEx Budget provided to SRII).

From: Jeff Hostettler [<mailto:jeff.hostettler@hpspartners.com>]
Sent: Tuesday, July 25, 2017 11:05 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Bo – do you agree initial availability will be ~\$100-110mm (based on ~\$2mm of June EBITDA)? Is that an actual at this point versus an estimate?

Thanks,
Jeff

From: Bo Dunne [<mailto:bo.dunne@armenergy.com>]
Sent: Tuesday, July 25, 2017 10:00 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

I'm going to hit the road and drive to grab some dinner on the way home. I'll be on my cell. 316-253-7851. Lets talk when you have a moment, so we can get marching orders out sooner than later.

From: Jeff Hostettler [<mailto:jeff.hostettler@hpspartners.com>]
Sent: Tuesday, July 25, 2017 7:08 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Thanks. This case is perfect for a downside scenario.

Laughed out loud with respect to your sentence below re: TK striking everything...

Let me gather myself over here, I'm getting jammed on a few different fronts at the moment...

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 7:44 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

Jeff,

See attached with the revised assumptions. Please reference the "HPS-Case 1" tab. We are compliant throughout the tenor, as the volumes do not warrant us building a 2nd 200/d cryo plant. Producer assumptions are noted below (and reflected in rows 100-114). Note that we are assuming 3 rigs producing crude.

	Alta Mesa		Chisholm		Gastar	
	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr
7/1/2017	4	22	1	14	1	18
10/1/2017	4	22	1	14	1	18
1/1/2018	4	22	1	18	1	18
4/1/2018	4	22	1	18	1	18
7/1/2018	4	22	1	18	1	18

	Marathon		Chesapeake	
	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr
7/1/2017	N/A	N/A	N/A	N/A
10/1/2017	N/A	N/A	N/A	N/A
1/1/2018	N/A	N/A	N/A	N/A
4/1/2018	N/A	N/A	N/A	N/A
7/1/2018	N/A	N/A	N/A	N/A

On another note, we heard back from Thomson Knight on the Pledge Agreement. They rejected all of the changes. After you've had a chance to review, let me know when you can speak.

Thanks,
Bo

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 5:31 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Yup. Maybe drop to 3 rigs producing crude? Gracias

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 6:20 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

Same wells/rig/year assumption? Also, we assume that only 4 of the rigs are producing crude.

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 5:07 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Could you do me a quick favor and run a 4-rig AMH, 1-rig Chisholm and 1-rig Gastar case? If that busts covenants, add a rig such that AMH is running 5 rigs.

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 5:56 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

Yes.

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 4:47 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Thanks. Are the assumptions below for Case 3?

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 5:15 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

See attached. Case 3 is the case that is more conservative than those reflected in the Lender materials. Type curves are based on the Rugby model (75% Osage Volatile Oil and 25% Meramec Black Oil) for simplicity. The producer assumptions are as follows:

	Alta Mesa		Chisholm		Gastar	
	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr
Current (6/1/17)	6	22	2	14	3	18
7/1/2017	6	22	2	14	3	18
10/1/2017	6	22	2	14	3	18
1/1/2018	6	22	2	18	3	18
4/1/2018	6	22	2	18	3	18
7/1/2018	6	22	2	18	3	18

	Marathon		Chesapeake	
	Cum. Rig Count	Wells/Rig/Yr	Cum. Rig Count	Wells/Rig/Yr
Current (6/1/17)	1	N/A	1	N/A
7/1/2017	N/A	N/A	N/A	N/A
10/1/2017	N/A	N/A	N/A	N/A
1/1/2018	N/A	N/A	N/A	N/A
4/1/2018	N/A	N/A	N/A	N/A
7/1/2018	N/A	N/A	N/A	N/A

Also, the capex schedule is different than what we have provided to SRIL. Let me know if you want to discuss.

Thanks,
Bo

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 4:09 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Yeah, let's start with that. Thanks

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 5:08 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: RE: Lender Model

~51 MB – you okay w me just sending the outputs?

From: Jeff Hostettler [mailto:jeff.hostettler@hpspartners.com]
Sent: Tuesday, July 25, 2017 4:04 PM
To: Bo Dunne <bo.dunne@armenergy.com>
Subject: RE: Lender Model

Just syndication tracker. How large is xls?

From: Bo Dunne [mailto:bo.dunne@armenergy.com]
Sent: Tuesday, July 25, 2017 4:55 PM
To: Jeff Hostettler <jeff.hostettler@hpspartners.com>
Subject: KFM: Lender Model

...Did you receive? It is a large. Xls file.



Bo Dunne – Vice President of Finance
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